Is the Manufacturing Comeback Just an Illusion?

A great deal of attention has been paid to the decline of manufacturing in America, and I've been accused of being a "town crier" since the 1980s, when I began to see our nation lose its edge to foreign competition.

My concerns have proven well-founded. Depletion of the wealth-generating engine of manufacturing is the root cause of many of our economic problems, as billions of dollars have left our shores for the purchase of foreign-made products.

Yet for some time now I have heard little but good news about manufacturing. The output of U.S. factories is up. Manufacturing is adding jobs at a faster rate than other industries. "Re-shoring" is gaining momentum. Could it be that happy days are here again? Could it be that wealth generated by a refortified U.S. industrial base will finally be able to address the many domestic problems we now face?

Manufacturing, after all, was the primary factor in America's becoming an economic superpower in the years after World War II. While much of the world's postwar industrial capacity was decimated, the U.S. manufacturing base was never stronger. We became king of the economic world by *exporting* products and importing wealth. But over the past 30 years, we've been *importing* products and exporting wealth.

The good news today is that manufacturing is indeed coming back, and for many reasons: transportation costs, rising wages overseas, lack of contract and property rights laws, etc. The bad news is that these gains are simply too meager to have any significant impact on reversing America's economic decline. Our exporting of wealth continues unfettered.

Bottom line: We must look beyond the growth in U.S. manufacturing jobs as the measure of our industrial success. Instead, look at the actual scorecard that measures the flow of wealth in and out of our economy — the trade deficit of manufactured products.

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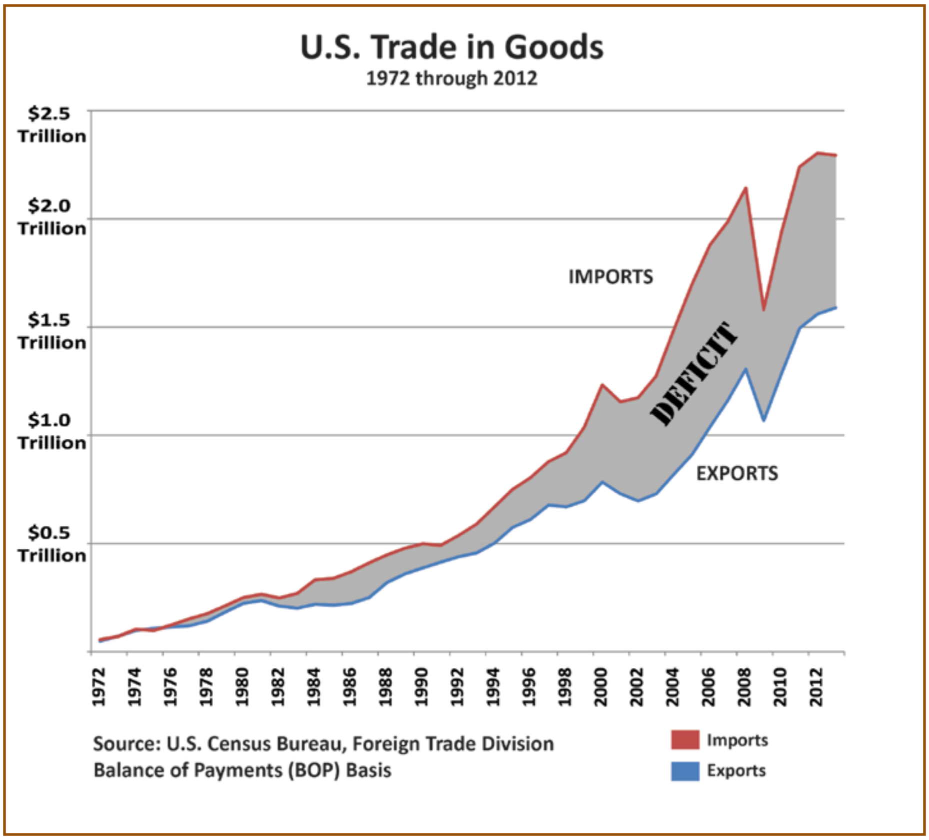
Trade data tracking imports and exports from 1972 to 2012 indeed show an increase in exports, but we also see an increase in imports — almost as if the two are linked. As we bring in more wealth to our economy, we simultaneously send away an ever-increasing amount to purchase imported products, continuing on the losing side of this equation. In this 40-year period, we have sent an almost inconceivable $11.2 trillion out of our economy. Is it any wonder that so many of our social needs are underfunded and millions of Americans are struggling?

So despite the positive news about gains in manufacturing, and the subsequent waving and chest-thumping in the media and by those in Washington, performance at its current level is simply unacceptable. It will not have a beneficial impact on our economy — not for the creation of jobs or the tax revenue required for our social systems, infrastructure and to pay our government employees.

Investing and Training

So what can be done? My experience as president and chief operating officer of Arrow Gear Co. suggests a thing or two. When I'm asked how Arrow has sur-



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vived and thrived in the precision gear industry, I cite a willingness to invest in advanced technology, innovation, leading-edge design and development capabilities, and, most of all, a skilled workforce.

So how can other companies achieve what we've done at Arrow? The answer is as simple as it is complex: As a nation we must embrace the high-tech, innovative manufacturing model. And we must develop a workforce capable of the skills needed for that model.

The federal government also needs to do some things. The U.S. corporate statutory tax rate is 39 percent, while those of our top three largest trading partners (Canada, China and Mexico) range from 15 to 28 percent. Other industrialized nations seem to better understand the economic value of their industrial base and the deleterious impact of corporate taxes. It's a serious inhibitor to U.S. competitiveness in the global market.

There is a reawakening of awareness about the importance of manufacturing. But we need to preserve the momentum, because if we blindly assume that growth will continue, we are most certainly destined for renewed decline. Manufacturing creates well-paying jobs, and those jobs, in turn, provide for the needs of society. If we fail in this, let no one be surprised when we see an increase in social unrest among those forced to live without the basic necessities and opportunities that life in America should provide.

Joseph L. Arvin
President, Arrow Gear Co.

Joseph L. Arvin is president and chief operating officer of Arrow Gear Co. in Downers Grove, IL. He is also a member of the Illinois Institute of Technology's industrial, technology and management advisory board and founder of the nonprofit Citizens for American Manufacturing *(www.camusanow.com).*